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AND THE

NATIONAL BANKING SYSTEM OF THE UNITED STATES.

Walker, B. E.

A COMPARISON WITH REFERENCE TO THE BANKING REQUIREMENTS OF CANADA.

TORONTO:
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Mr. Foster's Banking Bill places before the public one of the most important questions affecting the business interests of the country with which legislators have to deal—the renewal of the Bank Charters. Discussion regarding the conditions under which banking is in future to be conducted in Canada is mainly contributed by newspaper editors and anonymous writers, many of whom can have little practical knowledge of the business of banking. Their views are apt to be reflected in Parliament by some of the members, as it is not to be supposed that many members can devote sufficient time to master the details of such an intricate subject, and arrive at an understanding of the underlying principles. It therefore seems fitting that a contribution to the discussion should be offered by a banker, and having had many years of practical experience in the working of the two systems, I venture to ask the attention of the public to the following paper comparing the Canadian and the United States National Banking Systems.

B. E. WALKER.

The Canadian Bank of Commerce,
Toronto, April, 1890.

CANADIAN AND UNITED STATES BANKING.

I desire to compare the system of banking prevailing in Canada with the National Banking System in the United States, for the purpose of removing the impression, still existing in Canada to some extent, that our currency would be improved by adding to our banking laws certain features peculiar to the National Banking System. I hope to convince any who are still enamoured of the National Banking System, that it would be a mistake to introduce its features here. I propose to admit pretty nearly all that has been claimed for its peculiar feature, and also to admit certain defects in our own system ; but I also expect to prove indubitably that the defects in the National Banking System are radical and due to an unscientific basis, while the defects in ours can be removed and a perfect currency obtained without incorporating the grave defects inherent in the National Currency. It must seem strange to leading financial authorities in the United States, that at a time when ex-Comptrollers of the Currency such as MR. KNOX and MR. TRENHOLM, are suggesting schemes to replace the National Currency, now secured by U.S. bonds, by some so-called National Currency secured in a quite different manner—in order to avoid the extinction of the National Banks,—there are still people in Canada desiring to create a currency based upon a public debt. In fact so complete is the admission of the failure of the National Banking System *as a means of providing an adequate currency*, that the able editor of the New York *Daily Commercial Bulletin*, in a series of articles on the currency muddle in the United States, winds up by advocating a bank currency based upon the notes becoming a first lien upon the assets—in other words he recommends the adoption in the United States of the Canadian system.

The creation of the National Banking System was undoubtedly an act of great statesmanship, but it was not the act of a statesman impelled alone by a desire to improve the condition of

banking and commerce. The object of MR. CHASE was, primarily, to create a market for the bonds issued in order to carry on the war ; secondly, to make the rapidly-increasing paper money at least as good as the Government credit could make it, gold payments being suspended ; and thirdly, to remedy the evils of the State-Banking System under which the notes of 1,500 banks empowered by the several States, under various systems of banking, were being circulated.

The banking systems of the Eastern and Middle States were quite creditable to the time, but in many Southern and Western States charters were granted with reckless disregard of all principles of banking and currency. The banks being individually weak and, except in a few cases, merely local institutions with no national importance whatever, their notes fell to a discount whenever they travelled a few miles from home, and the notes of Southern and Western banks were subject to a further discount because of the "wild-cat" nature of their charters and their business. In any event a currency adequate for a great nation could never have been created out of banking systems so various and drawing their authority from so many sources. It must be remembered that the right of any State in the Union to grant bank charters with note-issuing powers still exists, the power to issue notes being rendered worthless by the continuance of the Federal Tax of 10 per cent. per annum. It will be seen that the problem with which SECRETARY CHASE had to deal was not to improve a Federal system of banking already in existence, but to wrest from the State Banks their right of issue, in order that he might replace their currency with the new National notes. Whether the means by which he destroyed the State Bank issues was constitutional or not, we need not enquire. Had SECRETARY CHASE been asked as to this, he might have replied as he did to MR. MCCULLOCH regarding the constitutionality of his other great measure, the Legal Tender Act :—"Many things can be properly done under the war power of the Government that would not be tolerated in times of peace."

The outlines of a National Banking Act were made as early in the war as December, 1861, but it was not until after Lincoln's message of 17th January, 1863, that any action was taken. The Presi-

dent having just signed a bill authorising an additional issue of $100,000,000 of legal tenders, expressed his alarm at the effect of this form of currency, added to that of the suspended State Banks, in increasing the price of all commodities beyond the real value and causing general instability to the currency. To avoid these evils he urged the passage of a National Banking Act in the following extract from his message:—

"To that end, a uniform currency, in which taxes, subscriptions "to loans, and all other ordinary public dues, as well as all private "dues may be paid, is almost if not quite indispensable. Such a cur- "rency can be furnished by banking associations, organized under a "general act of Congress, as suggested in my message at the beginning "of the present session. The securing of this circulation by the pledge "of United States bonds as therein suggested, would still further facili- "tate loans by increasing the present, and causing a future demand for "such bonds."

Congress took up the bill and after much discussion passed it in February, 1863. It is plain that LINCOLN, whatever other virtues the bill had, wanted a market for his bonds in order to prosecute the war for the Union.

SECRETARY CHASE, also, in urging the passage of an act as early as December, 1861, wrote as follows :—

"The people would find the further advantages of a large demand "for government securities, of increased facilities for obtaining the "loans required by the war, and of some alleviation of the rate of "interest, or a participation in the profits of circulation, without risk- "ing the perils of a great money monopoly.

"A further and important advantage to the people may be ex- "pected in the increased security of the Union, springing from the "common interest in its preservation created in the distribution of its "stocks throughout the country, as the basis of their circulation."

Now it may well be said that it does not matter whether the National Banking Act was created in response to a demand for a better banking system, or to the supreme demands of war, as long as it has answered the purposes of a perfect or comparatively perfect system. It is my intention to show that it has not.

What is necessary in a banking system in order that it may answer the requirements of a rapidly growing country and yet be safe and profitable?

1. It should afford the greatest possible measure of safety to the depositor.

2. It should supply the legitimate wants of the borrower, not merely under ordinary circumstances, but in times of financial stress, at least without that curtailment which leads to abnormal rates of interest and to failures.

3. It should possess the machinery necessary to distribute money over the whole area of the country, so that the smallest possible inequalities in the rate of interest will result.

4. It should create a currency free from doubt as to value, readily convertible into specie, and answering in volume to the requirements of trade. In saying this I do not wish to be understood as asserting that banks should necessarily enjoy the right to issue notes. Whether they should or should not issue notes must always, I presume, end in a discussion as to expediency in the particular country or banking system.

THE DEPOSITOR.

In a recent number of an American banking journal, the astounding statement is made that in Canada "Business men with few exceptions favor the adoption of the American National Banking system, on the ground of its simplicity and the additional security it affords to stockholders and depositors." It is but charitable to suppose that the individual who wrote the statement in question was entirely ignorant of banking. A more preposterous statement is scarcely possible. The legal position of the depositor in the two countries is identical, but when we regard the amount of loss by bad banking, which must occur before the depositor can suffer, the case is quite different. In Canada bankers have large capitals and relatively small deposits. The Government statement at 31st December, 1889, shows that before depositors having claims amounting to $134,000,000 can suffer, shareholders must lose in paid-up stock and double liability as much as $120,000,000, and $20,000,000 of surplus funds, in all $140,000,000. I am quite sure there is no country

in the world where greater security is offered to depositors. And when the comparison is made between individual banks in the two countries the strength of the Canadian branch-system is still more apparent. The probability of loss to the depositors in one bank with several millions of capital, is less than the probability of loss to *some* of the depositors in ten or twenty small banks, having *in the aggregate* the same capital and deposits as the large bank. We must not, however, expect that any government will relieve a depositor from the necessity of using discretion as to where he places his money. Governments never have done and never can do that. Men must look around, and after measuring the security offered, judge where they should entrust their money. In Canada a man of the most limited intelligence can have no difficulty in depositing his money where it will be as safe as it can be any where in the world.

THE BORROWER AND THE BRANCH SYSTEM.

In discussing the banking-systems in older countries, the borrower is not often considered. Men must borrow where and how they can, and pay as much or as little for the money as circumstances require. I believe too strongly in the necessity for an absolute performance of engagements, to think that it is a requirement in any banking system that it shall make the path of the debtor easy. Every banker should discourage debt, and keep before the borrower the fact that he who borrows must pay or go to the wall. But in a new country the debtor class is apt to make itself heard, and I wish to show what our system does for the worthy borrower as compared with the United States National Banking System.

In a country where the money accumulated each year by the people's savings does not exceed the money required for new business ventures, it is plain that the system of banking which most completely gathers up these savings and places them at the disposal of the borrowers, is the best. It is to be remembered that this involves the savings of one slow-going community being applied to another community where the enterprise is out of proportion to the money at command in that locality. Now, in Canada, with its great banks with thirty and forty branches, we

see the deposits of the saving classes applied directly to the country's new enterprises in a manner nearly perfect. The Bank of Montreal borrows money from depositors at Halifax and many points in the Maritime Provinces, where the savings largely exceed the new enterprises, and it lends money in Vancouver or in the North-West, where the new enterprises far exceed the people's savings. In what other country is such a splendid development of banking to be seen as that involved in transferring the idle money of the Atlantic towns and cities to the new centres of enterprise on the Pacific? My own bank in the same manner gathers deposits in the quiet unenterprising parts of Ontario, and lends the money in the enterprising localities, the whole result being that thirty-eight business centres, in no case having an exact equilibrium of deposits and loans, are able to balance the excess or deficiency of capital, economising every dollar, the depositor obtaining a large rate of interest, and the borrower obtaining money at a lower rate than borrowers in any of the colonies of Great Britain, and a lower rate than in the United States, except in the very great cities in the East. So perfectly is this distribution of capital made, that as between the highest-class borrower in Montreal or Toronto, and the ordinary merchant in the North-West, the difference in interest paid is not more than two per cent.

In the United States banks have no branches, have in fact no national character at all, despite their title. There are banks in New York and the East seeking investment for their money, and refusing to allow any interest on deposits, because there are not sufficient borrowers to take up their deposits ; and there are banks in the West which cannot begin to supply their borrowing customers, because they have only the money of the immediate locality at their command, and have no access to the money in the East, which is so eagerly seeking investment. To avoid a difficulty which would otherwise be unbearable, the small western banks sometimes re-discount their customers' notes with banks in the East, a remedy only resorted to in this country by the small banks, when under extreme pressure, and always regarded as an unjustifiable exposure of the affairs of the bank's customers. But, of course, the western banks wanting money, and the eastern

banks having it, cannot come together by chance, and there is no machinery for bringing them together, and so it follows that a Boston bank may be anxiously looking for investments at four or five per cent., while in some rich western state ten and even twelve per cent. is being paid. These are extreme cases, but I have quoted an extreme case in Canada, where the capital marches automatically across the continent to find the borrower, and the extra interest obtained scarcely pays the loss of time it would take to send it so far, were the machinery not so perfect.

As I have indicated, it should be the object of every country to economise credit, to economise the money of the country so that every borrower with adequate security can be reached by every lender, and the machinery for doing this has always been recognized in the banks. What would Canadians think of a system of banking under which the surplus money in every unenterprising community had a tendency to stay there, while the surplus money required by an enterprising community had to be sought at a distance. But if by paying a higher rate of interest, and seeking diligently, it could always be found, the position would not be so bad. The fact is that when it is most wanted, distrust is at its height and the cautious eastern banker buttons up his pocket. When there is no inducement to avert trouble to a community by supplying its wants in time of financial stress, there is no inclination to do so. The small banks, east or west, can have no sense of responsibility for the welfare of the country as a whole, or for any considerable portion of it. But the great banks in Canada, with twenty, thirty or forty branches, with interests which it is no exaggeration to describe as national, cannot be idle or indifferent in time of trouble, cannot turn a deaf ear to the legitimate wants of the farmer in the prairie provinces, any more than to the wealthy merchant or manufacturer in the East. Their business is to gather up the wealth of a nation, not a town or city, and to supply the borrowing wants of a nation.

There was a time in Canada, about twenty years ago, when some people thought that in every town, a bank, no matter how small, provided it had no branches, and had its owners resident in the neighborhood, was a greater help to the town than the branch

of a large and powerful bank. In those days, perhaps, the great banks were too autocratic, had not been taught by competition to respect fully the wants of each community. If this feeling ever existed to any extent, it has passed away. We are in fact in danger of the results of over-competition. I do not know any country in the world so well supplied with banking facilities as Canada. The branch system not only enables every town of 1,000 or 1,200 people to have a joint stock bank, but to have a bank with a power behind it generally twenty to fifty times greater than a small bank in the United States would have.

THE NOTE ISSUES AND TILL MONEY.

I am aware that I have thus far been speaking about features in banking which do not interest everybody, which interest mainly the depositor, the shareholder, and the borrower. I am now about to enter on the burning ground of bank-note issues and the currency, that feature in banking which interests everybody. Before doing so, however, I wish to make clear the connection which exists between the branch system and the present system of note issues. Some of my readers may admit my arguments thus far, and yet contend that in proposing that Canadian note issues shall be secured by deposit of Government bonds, they do not see why the excellent features of the branch system would be lost to the country. My answer to this is that branch-banking and an elastic note issue—secured by the general and not by particular assets of the bank—are nearly inseparable; that branch-banking has flourished in every country where it is carried on, in proportion to the freedom of the note issue from government interference. Branch offices are opened in Canada, as in Scotland or elsewhere, for the profit to be derived therefrom. With our present system the notes in the tills of these branch offices cost no loss of interest, not being money, in fact, until they are issued, whereas under an issue secured by deposit of bonds the till money would mean just so much loss of interest. This is a point of great importance which is often forgotten in discussing the question of bank-note issues.

In addition to this, one of the inducements to open a new branch is the profit on the notes kept in circulation by the new

business so created. If the profit is taken away, or partly taken, banks will have to close many of their offices. But there is a still closer connection between the branch system and the present note issues than these.

In order to secure currency based on government bonds, sufficient to carry on the business of the country and to supply the minimum amount of till money which the banks would require, nearly $50,000,000 would have to be taken from the loaning powers of the banks. Some newspaper editors seem to think that because this fact has been frequently stated it has lost its force as an argument. If these editors could once grasp the importance of the statement every repetition of it would make them realize how foolish it is to court disaster by playing with forces the danger of which few understand. Even if this contraction of the loaning powers of the banks could be spread over ten years, men of sober judgment must tremble at the financial disturbance and consequent check upon the progress of Canada which would result. I am not afraid to say that in my judgment one-third of all the branch offices in Canada, and these the offices in the small, struggling towns, would have to be closed. There may be bankers in Canada, with unemployed resources, who think the higher rates of interest, which must ensue, would cover the depreciation in the value of their customers' bills discounted. I neither believe that any advance in interest would cover the loss certain to result from such a policy, nor do I believe that high rates of interest are profitable in the long run to the banker. And I hope I need not add that I regard any banker who argues such a large question from the point of view of what would profit his own institution, even if it caused loss to the business community, as hopelessly blind to his real interests.

THE CURRENCY AND BANK NOTE ISSUES.

I have already stated, in attempting to outline what is necessary in a banking system in order that it may answer the requirements of a rapidly growing country, that "it should create a currency free from doubt as to value, readily convertible into specie and answering in volume to the requirements of trade." In an admirable paper on "The Note Circulation" read

in December last, before the Institute of Bankers, in London, England, by MR. INGLIS PALGRAVE, only two requisites in a note circulation are directly stated as essential : "First. That it should be completely secured. Second. That it should be readily convertible into metallic money." But the discussion which follows bears directly upon the third requisite, that it should answer in volume to the requirements of trade. This last is a much less important point, however, in England, than in Canada ; and it will be well to bear in mind that it is not very profitable to compare the currency and banking systems of countries which have no close analogy in products, class of trade, extent of wealth, and density of population. What we Canadians should seek to know is, what is best for our own country in view of its present condition and outlook?

In discussing bank issues I will reverse the order in which MR. PALGRAVE has placed the three requirements, and take up the question of elasticity first. I shall not attempt to discuss the many and conflicting views held regarding paper money, its use and abuse, and whether there is any scientific basis for its issue ; but I shall endeavor to show to what extent it seems possible for note issues in America to have a scientific basis with regard to elasticity. In Canada, as in many other countries where the stock of precious metals is small, the resulting difference in business transactions, after cheques and all other modern instruments of credit have been used, is almost entirely paid in paper money. It is therefore of the greatest importance that the amount of this paper money existing at any one time, shall be as nearly as possible just sufficient for the purpose. That is, that there shall be a power to issue such money when it is required, and also a power which forces it back for redemption when it is not required.

I may, therefore, I think, safely lay it down as a principle that : (1.) There should be as complete a relation as possible between the currency requirements of trade and the cause which *issues* paper money ; (2) and, as it is quite as necessary that no over-issue should be possible, as that the supply of currency should be adequate, there should be a similar relation between the requirements of trade and the cause which *forces notes back* for redemption.

Now the *cause* of the issue of bank notes is the profit to be derived therefrom, and it is clear that an amount sufficient for the needs of trade will not be issued unless it is profitable to issue. Likewise it is clear that it should not be possible to keep notes out for the sake of the profit if they are not needed.

In Canada, bank notes are secured by a first lien upon the entire assets of the bank, including the double liability, the security being general and not special, not by the deposit of Government Bonds for instance. Therefore, without entering into the question of the profit of issues against Government Bonds, which will be referred to later, it is clear that it will always pay Canadian banks to issue currency when trade demands it. Because bank notes in Canada are issued against the general estate of the Bank, they are subject to daily *actual* redemption ; and no bank dares to issue notes without reference to its power to redeem, any more than a solvent merchant dares to give promissory notes without reference to his ability to pay. The presentation for actual redemption of every note not required for purposes of trade, is assured by the fact that every bank seeks by the activity of its own business to keep out its own notes, and therefore sends back daily for redemption the notes of all other banks. This great feature in our system as compared with the National Banking System, is generally overlooked, but it is because of this daily actual redemption that we have never had any serious inflation of our currency, if indeed there has ever been any inflation at all. Trade, of course, becomes inflated, and the currency will follow trade, but that is a very different thing from the existence in a country of a great volume of paper money not required by trade. I will not discuss at length this quality of elasticity in our system, because it is admitted by our opponents. But our opponents endeavor to show that a similar quality might be given to a currency secured by Government bonds, and I desire to make it clear that such elasticity as is required in Canada is impossible with a currency secured by Government bonds. In the older countries of the world it may be sufficient if the volume of currency rises and falls with the general course of trade over a series of years, and without reference to the fluctuations within the twelve months of the year. In Canada it is

not enough that the volume of currency should rise and fall from year to year; it must also for about eight months in each year keep at a minimum (excluding the legal tenders) of about $30,000,000, and for about two months of the remaining four reach $36,000,000 or $37,000,000, a sudden advance of 20 per cent., followed after a few weeks by as sudden a decline. The time will come when this condition will not be so marked in our currency, but we are dealing with the wants of Canada to-day.

If the currency were secured by Government bonds, the volume of currency in existence at any one time will be determined by the profit to be gained by the issue of such bond-secured currency, that is, as long as the credit of the Government issuing the bonds and guaranteeing the currency remains undoubted. It would, therefore, be necessary to fix a maximum beyond which no currency could be issued, but as such an arbitrary limit would be mere legislative guess work, it would be productive of the evils incident to all efforts to curb natural laws by legislation. When the National Bank charters were offered by the Federal Government to the State Banks, the bonds of the United States bore 5 to 6 per cent. interest, and the business of issuing currency against such bonds was so profitable that a maximum such as I have referred to was fixed, with an elaborate provision stating how the banking charters were to be distributed as to area, in order that each State or section of country might have a fair share. This was followed by several adjustments, the last limit being $354,000,000, no one being satisfied with the interference with free banking, and the cry of monopoly being frequently heard. Subsequently the maximum was abandoned, indeed the business of issuing notes against Government bonds had become unprofitable and there was no longer any fear of inflation.

The moral of this for Canada is that if we had a circulation secured by Dominion bonds, bearing a rate of interest which would make the business of issuing notes secured thereby a profitable one, we would have too much currency. Fortunately the credit of Canada now is vastly different from the credit of the United States in 1863, and it would be impossible for the Government to give the banks bonds bearing a rate of interest that would render the issue of currency profitable.

The condition in the United States under which the issue of currency was unduly profitable, and the fear of inflation was present, lasted long enough to create in the people a hatred of banks (which has not yet passed away), but it did not actually last many years. The condition which followed showed conclusively the unsoundness of the system in the matter of providing an elastic currency, a currency *at all times* adequate in volume. The currency wants of the country increased with the great increase in population, but the volume of National bank currency decreased because of the low rate of interest now earned by United States Government bonds. The Comptroller's statement shows that the volume of circulation secured by United States bonds, which ranged from 1866 to about 1880 at from about $300,000,000 to $350 000,000 has now declined to $130,000,000 as at November, 1889. The moral of this for Canada is equally plain. If the Government bond pays such a low rate of interest as to make it unprofitable to issue currency, banks will not provide sufficient currency for the wants of the country.

But it may be asked: if this matter of volume and elasticity in currency is so important, how could the United States at a time when its currency requirements are steadily increasing, suffer the loss of over $200,000,000 of bank note contraction. I fancy Canadians who admire United States systems of currency, forget, or do not know that the great gap has been filled by the issue of over $300,000,000 of silver money, worth about seventy-five cents in the dollar. This is not the place to discuss the silver question, and I will presume that there are no Canadians who are enamoured of United States views in that respect at least, but I must remind any who admire the United States National Currency, but do not admire the silver dollars, that it was the inadequacy of their bank note currency which made it possible for the country to be pushed by scheming silver miners into the financial mud puddle in which they are now floundering. I shall not try to picture the evils from the contraction of the bank note circulation which might have occurred in the United States had the silver money not been injected into the currency, because had the silver not been issued the financial writers of the United States would have been con-

sidering, six or seven years ago, instead of at present, what new system could be introduced (under the old name with all its charm if possible), to stop the contraction which is now going on, even too fast for silver money to fill the gap, unless issued at a higher rate than $2,000,000 per month. We have a good many currency doctors in Canada, but we cannot count noses in this matter with the authorities in finance and the politicians in the United States, who have invented several entire Banking Systems, each calculated to save the situation.

I hope I have made it clear that if the business of issuing currency against Government bonds is profitable, too much currency will be the result ; and if it is unprofitable, too little will be issued. We must have a condition of things under which the profit of issuing notes will at all times bear an exact relation to the amount of currency required by the country, the profit therefore changing not only as the currency rises and falls over a series of years, but at the time of the sharp fluctuations within each year already referred to. No such relation, however, exists.

The next quality in a currency to be considered is, " That it should be readily convertible into metallic money." I do not propose to discuss this at length. As I have pointed out, our safety lies in the actual daily redemption which arises out of our circulation being generally instead of specially secured. This is the best possible safeguard against suspension of specie payments. The United States National Banking System was created during a suspension of specie payments, and doubtless would never have been heard of but for that fact, and the countries which have introduced that system have either done so during a period of suspension, or have hastened to that condition under the influence of the expansion caused by too profitable note issues and the usual concurrent national extravagance.

My last point is that placed first by Mr. Palgrave in his discussion with the English bankers: "That the currency should be completely secured." I do not know whether we are to understand also that a note must pass throughout the entire country without discount for any reason, but I include that in the point to be discussed. Now, I contend that it is better for the reasons

given, that bank issues should be based for security on the general assets of the bank, with a prior lien to other creditors ; and also, that in the long run such notes will be actually safer because the effect of a system of notes secured by Government bonds—a loan forced by the Government, practically—must often be to produce national bankruptcy, as in the case of the Argentine Republic. Still, I cheerfully admit that the United States National Banking System has taught us that a currency issued by banks may be made to pass over the entire area of a great nation without discount. This is a great quality in currency. To the ordinary individual, who knows and cares little about banking except as it affects the bank-note he happens to carry in his pocket, it appears to be the one quality necessary.

In Canada, experience has shown that as long as the notes are a prior lien on the assets of the bank, including the double liability, ultimate loss is scarcely possible,—has not at all events occurred as yet. To secure a circulation—at the close of December, 1889, of $33,557,700—the banks had assets of $252,166,663, to which the double liability of $62,378,500 is to be added, making a total of $314,545,163, or $9.37 of assets against every dollar of currency. It has been pointed out, however, that the assets are not thus aggregated against the circulation, and that all banks are not as secure as these figures seem to show. But the security in this respect, in regard to each bank, varies very little from the general average, the lowest percentage being 6.05 as against the general average of 9.37.

Now the simple question for the people of Canada is: Shall we take up a system of banking which creates a currency passing over the entire area of a country without discount, but having no tendency to correspond in volume to the requirements of trade, and which would ruin our excellent branch system and reduce us to a level with the feeble individual banks in the United States? Can there be any question that our interest and our duty is to make our own system perfect, by adding to it the good qualities of the National bank *currency* without also adding the evils of the United States National *system of banking* if that be possible?

The defects in our bank note currency are two: (1.) The notes of solvent banks of high reputation, issued in one Province, are sometimes subjected to a discount in other Provinces, the cost of returning them for redemption being thus thrown upon the public. (2). The notes of suspended banks fall to a discount between the period of suspension and the time when the liquidator is able to redeem them.

Regarding the first point, it is to be remembered that the note of a National bank issued in Maine only passes at par on the Pacific slope because there is no *actual* redemption under that system, and the note does not therefore have to be returned to Maine. I have shown the great value of actual daily redemption, and I hope the necessity for that will never be removed in Canada. But to avoid the discount in question without avoiding the actual redemption, MR. FOSTER'S Banking Bill proposes that each bank shall make arrangements to ensure the payment at par of its notes in every part of the Dominion. This can be done by each bank arranging with other banks to redeem its notes at the commercial capital of each province—Halifax, St. John, Charlottetown, Montreal, Toronto, Winnipeg, Victoria, and any other places named from time to time by the Treasury Board.

The second defect is, of course, the most difficult to cure ; not because it is not comparatively easy to avoid loss to the public without causing loss to the banks, or at all events any considerable loss, but because, theoretically, solvent banks should not be called upon to bear the results of the bad management of others. But the history of currency legislation in all countries makes it reasonably certain that theoretical arguments, sound or not, will not receive much attention from the people or their legislators. It is a matter in which expediency is certain to rule, and without discussing the abstract right or wrong, we may as well at once consider the expediency of the proposal in MR. FOSTER'S Bill. The bill proposes that the banks shall create a "Bank Circulation Redemption Fund" of five per cent., to be held by the Government, and to be availed of whenever the liquidator of an insolvent bank is unable to pay the note circulation in full. The notes of insolvent banks are to bear interest from the date of suspension until the

liquidator announces his ability to redeem ; so that, if the notes of an insolvent bank do not remain in circulation at par, it will be because they will command a premium as against the amount of interest accrued. Any bank or private investor will be satisfied to take such notes in order to earn the interest, having as his security: (1) a prior lien on the entire assets of the bank ; (2) the double liability of the stockholders, and (3) the "Bank Circulation Redemption Fund." And should banks or private individuals be unwilling, for any reason, to take such notes, recourse may be had to the Redemption Fund immediately upon the bank becoming legally insolvent, and without waiting for the liquidation of its assets, the Redemption Fund, of course, retaining the lien on the assets of the failed bank for the notes so redeemed. As the amount of the Fund, based on the present average circulation, will be about $1,700,000 it is useless for adverse critics to say that the security is insufficient, even if we overlook the fact that, since the notes have been made a prior lien, the bank issues of every failed bank have been paid in full, in most cases, within a few weeks. It may be urged that two or three large banks might fail at once, and that in such an event the fund would be insufficient. But if any one will add the circulation of two or three of the large banks together, and then consider the assets and double liability to be collected before the fund can actually be at a loss, it will be clear that the fund is ample for any contingency that is within the range of probability. In my opinion the fund is much larger than is necessary. A contribution of one quarter of one per cent. per annum until the fund reached one million dollars would have been ample to meet any emergency at all probable and would have been much more equitable to the banks.

The sufficiency of the fund must, I think, be admitted by every honest critic who examines the proposal. It is the wisdom of forcing such co-operation upon the banks, which needs to be most considered. The public, however, demands a currency which will pass throughout the Dominion without discount, either for geographical reasons or in the event of suspension. If this demand is to be met it is for the Government to consider how it can be done so as to create the

least interference with the business of the country, and with the profits of banking. We cannot have two kinds of bank-note issues —at least I hope the people as a whole, and the bankers as a whole, will not submit to that; and if we are to have a currency which will pass without possibility of loss to the holder, which shall it be: A currency secured by special pledge of bonds, with all the evils incident thereto, or a currency secured by an insurance fund, retaining the quality of elasticity, actual redemption, etc., and the volume in the case of each bank depending upon the activity of its business?

It goes without saying that the banks could not be asked to take up an unlimited liability for each other regarding the note issues, but this proposal involves a very limited responsibility. The wording of the bill is, however, defective in one respect. It should state clearly that in the event of a depletion of the fund no bank which has already deposited the required five per cent. shall be called upon to make up the deficiency at a greater rate than one-quarter or at most one-half of one per cent. per annum on its average circulation. This would, practically, have no effect in the working of the fund, but it would remove from the minds of timid shareholders and others the possibility, through a depletion of the fund, of calls upon the banks large enough to interfere with the ordinary profits of banking.

With this slight amendment the two new features of the bill will give us a currency which will pass throughout the Dominion without discount, either for geographical reasons or on account of suspension, rising and falling in volume, with the requirements of trade, not only over a series of years, but from month to month, and subjected daily to the test of actual redemption, and it will leave us in possession of a banking *system*, a more important consideration than that of *currency* alone, as perfect as any in the world.